



Finance Caucus Meeting

August 17, 2011

MEETING SUMMARY

CALIFORNIA WATER PLAN: UPDATE 2013

FINANCE CAUCUS MEETING

AUGUST 17, 2011 12:45 P.M. – 4:15 P.M.

CENTER FOR COLLABORATIVE POLICY, LARGE CONFERENCE ROOM
815 S STREET, 1ST FLOOR, SACRAMENTO, CA

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Welcome and Introductions

Paul Massera, of DWR, co-chair of the Finance Caucus and the Project Manager for Update 2013, welcomed Finance Caucus members to the meeting and explained that the framework from the last plan was not conducive to walking through things in a step-by-step process to build framework and integrate or interweave interests and stories, hopefully, the storyboard will be a useful tool this time around. Mr. Massera shared his eagerness to get started on work and thanked participants for sharing their valuable time.

Lisa Beutler, Executive Facilitator for the Water Plan, reviewed the agenda and caucus charter. She noted that all teams have the same charter except the scopes vary based on the work of the group. Kamyar has been designated as the Executive Sponsor. The Finance Caucus is a deliberative caucus where members are expected to work with the content. Membership is being closed so the group may proceed without having to routinely review. Members are expected to attend regularly to support consistency and continuous work, act as a liaison to their organization(s) or constituencies, act in good faith and in accordance with the roles identified in the charter. Co-chairs receive no special privileges, but agree to work with the team to think through agendas, materials, etc. The disclosure and other clauses apply to co-chairs just as they apply to all other members. Valerie Nera and Danny Merkely have agreed to co-lead the definitions sub-committee. Members of the public can come, but public comments will be limited to public comment portions of the agenda. Members may invite experts who will be agendized. Please know that any person may leave at any time for personal or professional reasons without negative connotation. The world is happening outside this process and some people's interests may diverge from the work of the committee; members may change their minds or may present public opinions that are different than what is going on in this process. All members should acknowledge the existence of the outside political world. Changes to the charter



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may be made collectively with the concurrence of the sponsor. Two standing ground rules were highlighted: humor, not at someone's expense, phones must be off or quiet during meetings.

Question: If a member takes a stand on or takes action on an issue in the outside world, do they need to communicate those to the facilitator or sponsor? Response: if a member is working on something and it is the subject of the deliberations and your organization is doing something that might have an effect on the negotiation space then it would be nice to disclose that to the group all members are working together in good faith and should strive to keep the conversation whole and honest despite the fact that members are living in two worlds. Sometimes the real world needs an op-ed, and all should try to be transparent about actions that occur away from the table. The charter will be posted online.

Where Have We Been and Where We Are Going

Mr. Massera provided an overview of Finance Caucus activities to date: we have identified two Finance co-chairs, briefed the Public Advisory Committee (AC) on the proposed approach and draft FAQ document, met with the Finance Caucus Design Team, been securing support to coordinate with the Delta Plan, Central Valley Flood Plan and Statewide Flood Planning, held two webinars to clarify finance, and we created a new approach based on input from the Finance Caucus, State Agency Steering Committee (SASC) and Public AC. Mr. Massera thanked those who have been contributing to current working drafts.

The guidelines for developing the storyboard approach are summarized in overarching issues, the storyboard is an attempt at a process that allows for integration of ideas while avoiding presuppositions. He asked the members whether they feel the storyboard approach allows for weaving their stories together. He noted the importance of definitions in the large and contested universe of Integrated Water Management (IWM). He reviewed the storyboard in its present state:

- STEP 1 - WHAT IS THE SCOPE OF THE FINANCE PLAN IN TERMS OF THE RESOURCE MANAGEMENT OBJECTIVES AND OUTCOMES?
- STEP 2 - WHAT ARE THE MOST CRITICAL AND/OR HIGH PRIORITY OBJECTIVES AND ACCOMPANYING ACTIVITIES FOR YOUR JURISDICTION/INTEREST?
- STEP 3 - HOW SUSTAINABLE OR PROBABLE ARE THE FUNDING SOURCES?
- STEP 4 - ARE THERE ANY OBJECTIVES, ACTIVITIES OR POLICIES IDENTIFIED IN STEP 2 WITH NO IDENTIFIABLE FUNDING SOURCE OR PLAN?
- STEP 5 - WHAT IS THE STATE GOVERNMENT BEST POSITIONED TO PLAN OR IMPLEMENT RELATIVE TO OTHER JURISDICTIONS?
- STEP 6 - HOW MUCH WILL THE STATE GOVERNMENT'S FUTURE ROLE COST?
- STEP 7 - HOW WILL THE STATE GOVERNMENT'S FUTURE ROLE BE FUNDED?
- STEP 8 - WHAT ARE THE CONSEQUENCES AND CONTINGENCIES UNDER SEVERE AND SUSTAINED FUNDING CONSTRAINTS?

This statewide effort seems new and language, understanding and values are important to our interaction with this work. The storyboard is a precursor to the framework that we will develop together.



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Finance Storyboard Overview

Mr. Massera asked the members: Is the storyboard asking the questions that are important to me? He proceeded to walk the members through the eight steps of the storyboard.

1. Start with benefits, which define the scope of IWM.
2. What activities, policies and actions do we need to take to realize said benefits?
3. Funding needed for activities, policies, actions.
4. How is funding vulnerable? Are there benefits, activities for which are unfunded?
5. What activities need state support rather than other jurisdictions?
6. How much will it cost?
7. Who and how are things funded? Beneficiary pays? Sustainability of funding sources?
8. What actions and activities does the state need to do if funding is tight? What happens when bond funds are fully allocated?

Question: On step seven, would that include how to articulate strategy for advancement of new funding needs, how to go from plan to decision? What would be DWRs process for moving a proposal forward? Response: the CWP has been used to influence the legislative and executive branch. Response: the portion dealing with “through what mechanisms” might address this question. Question: How to do beneficiary pay is one option, but how would the Water Plan advance that concept to approval or action steps beyond that? Question: “mechanisms will be specified as the group is capable and refined by administrative decisions” is this as explicit as possible? Response: the Water Plan cannot allocate or appropriate funds, good and bad, others must advance them: the legislature, governor, ballot initiatives, or those people in the room can all advance funding beyond what the Water Plan has the authority to do. Response: the legislature and stakeholders have signaled interest so the SASC may provide a way to move toward implementation via a network.

Question: the issues seem to be covered, but maybe should be in a different order? What if the plan started with constraints and prioritized objectives, and fit things in from there, the plan might be more practical if it starts from a different place? Response: This order was selected because it waits to bring up finance until later, by doing this the types of benefits that are hoped for can be addressed first, followed by activities that flow from those needs and then reconciling that with funding. This approach allows for the inclusion of more than one story and external layers can be peeled off under different funding constraint scenarios. Ms. Beutler reinforced the fact that agencies identified a need to fundamentally rethink things, and there has been discussion of the need to know what the universe looks like first: who does what, why and what wouldn't be done, etc. Comment: people are talking past each other and we need to define the scope of the activities and the role of state government; if the group can agree as a community then the group will be able to work together on costing things out and finding revenue sources from a more integrated place. It is important to establish the purview and the domain of investments.

Comment: The Water Plan is very important, without good planning there will be no good projects, so a discussion about funding is concerning; sometimes people think a little more fees are ok here and there...little fees here and there add up. The agricultural economy is looking good in areas, but it is taken out of context because the agricultural economy is still making up for many years of deficits. Be careful of the aggregated funding approach.



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Comment: Bringing in the local perspective, all jurisdictions to step four, but link back to local jurisdictions after step five, what locals do is supported or hampered by codes and legislation...what can the state do to support local funding? Be aware of implications of shifting from state to locals, as in Santa Cruz County.

Question: Where to start? One option is to start at Step 1, as proposed; another option is to start with the constraints, are the constraints significant enough that we should start there? Probably starting from constraints is a better model of how the world looks right now. Step 7 is important because most activities are carried out by local agencies and agricultural water users, which was recognized by the previous versions of the water plan; we need to be cognizant of what the state is doing and what they are leading, which is largely funded by locals. The state plan needs to capture what locals are spending, or will be paying, as well as identify local needs and constraints. Ms. Beutler noted there should be a more iterative relationship between the local realities and the state finance plan.

Question: Step 2 refers to priorities, whose priorities? Response: All jurisdictions should be included: local and regional are part of the universe and we need to capture that so we understand the universe. Follow-up: the California Water Plan Finance scope should include the entire state investment need for all levels and in step 4 the funding vulnerabilities and constraints will be identified. To imagine or suggest the state should leverage local dollars and projects then there is a need to know what the state would be trying to leverage. Step 2 strives to identify what the entire state is spending from all sources.

Question: Step 5, state participation should be divided into when they lead, assist, oversee, etc. Response: this needs to be reworded, it came from the last plan, and the group will reword it together in the future.

Question: Step 5 what does positioned mean? Comment: the state role is a fundamental question and might be needed earlier than Step 5, it is also important to make sure the Water Plan remains realistic; to make an effective case the Water Plan should start from a place that seems responsible and acknowledges limits and constraints.

Comment: cost is relative; the cost of one thing may be expensive, but is far cheaper than an alternative. Response: moving forward we are looking at an iterative process where constraints and limitations will be reanalyzed multiple times.

Comment: it might be informative to have scenario analysis for funding, if we don't start with what the local and regional agencies want and what they have now then look at constraints then we limit our world of possibilities to the current reality. The Water Plan hopes to provide information about what local and regional agencies would like. Response: if we move funding constraints up front then we need to agree on an assumption or multiple assumptions, scenarios. The finance plan should not be read as a wish list, it is intended to be a critical look at what is occurring and what can be shifted, cut, changed, etc. The process holds validity longer if it does not start with an assumption.

Comment: People seem to agree that this storyboard lays out steps to be able to look at what we need to get done, while threading into it at the appropriate steps, adjustments based on what funding constraints are. Comment: people talk about public goods charge and beneficiary pays; it is very interesting to take a piece of paper and say how much money is in the delta watershed, if it



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was \$10/acre foot then what is affordable...it drives us to priorities; you don't have to settle on what the dollar amount is; acknowledge the scale of those limits; if you are going to pay for restoration using this method then it would be \$100/acre foot which helps us figure out viable and unviable options.

Question: It makes sense to move up constraints and limitations, but are we talking about state or local constraints, or both? Response: Local constraints are important to the extent it affects the state's ability to leverage funds for all activities. Response: constraints on all local, regional, state and federal funding, for all activities covered.

Comment: I like scenarios because it helps us identify options that people might be willing to invest in. There is potential for local investment provided it can be seen in terms of the benefits that would come from that investment. Fees that are levied that may, or may not, provide necessary benefits are tougher to justify and accept.

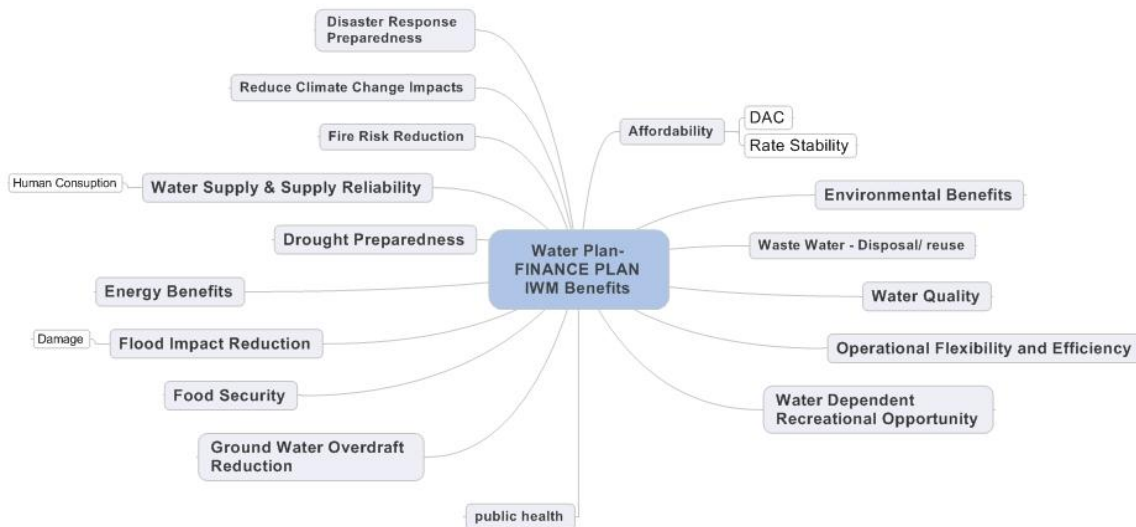
Comment: Perhaps we can maintain two parallel conversations, where we constantly check-in on constraints throughout the process. Lisa: we seem to have a working understanding and need to come up with how to depict it.

Comment: don't prioritize anything before all funding and constraints have been identified.

Question: how will scenarios be integrated and used by the finance plan. Response: The finance plan might benefit from more iteration between constraints and the rest of the steps.

Scope and Outcomes

Going from benefits to activities is tough. The following image depicts the benefits from Update 2009 plus food security, which is required by law. The goal of looking at this image is to define the benefits that are sought by Water Plan activities. The group examined the image, and made additions, subtractions and changes. Ms. Beutler walked participants through the mind map with a highlighter, and ran individuals through a logical exercise.





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Mr. Guivetchi referenced one example, from the Public Advisory Committee in March of 2009. It is posted online that is a topical glossary to the Water Plan 2009. Mr. Massera reminded the group that the practical application of this exercise is to identify those tools that fall within the scope of the finance plan, which are those that support or lead to the benefits that the IWM should include in their scope.

With that, Ms. Beutler asked participants to look at the benefits listed in the image and share their opinions.

Question: the definition of IWM that people pay attention to is the one in the statute, how does that definition relate to these benefits? Response: IWM will be defined for this finance plan, which may be different from other definitions.

Comment: some of these are intangible, and some cannot have a price tag placed on them...if the goal is to try to direct funding then how does that constraint play in? Response: some things are very difficult. Response: we are not using these to decide what monetary value we are willing to pay for intangible benefits. Comment: the situation is harder when it comes to intangibles and user pay or beneficiary pay situations. Response: the challenge and constraints related to monetization are noted.

Question: how are benefits used? Response: the benefits we include define the scope for IWM for our purposes, if actions could not be connected to benefits that we define then it is the type of thing we might invest in, it can be used as a test or screen.

Comment: water supply and reliability is geared toward human consumption, should we add fish and game, how do we define benefits, fish and game may be included in the environmental benefits. Response: these buckets may intermingle.

Question: is public health a part of water supply and reliability or not? Comment: the benefits are not mutually exclusive, agricultural land stewardship achieves most of these benefits, for example. Question: these are benefits of water management, what is the benefit that having integrated water management, what does the "I" bring? Comment: efficiency needs to be acknowledged, and we are not capturing it in all circumstances right now. Comment: in the arena of a finance plan and efficiencies throughout the state, right now many departments and agencies have different parts in achieving benefits; this can help us identify redundancies and help those programs be composed in a more efficient and meaningful way. Comment: Scenario – with or without the "I" in IWM, by integrating the "I" you get what, in terms of efficiency.

Comment: water conservation isn't a stand-alone category. Response: it is a tool not a benefit. Comment: benefits might be grouped in different ways; maybe there are overarching categories that might emerge: Disasters/catastrophic situations and Supply and reliability may have price as a subset. Response: lets group things if it will help, if grouping and splitting helps move things forward then go for it, and if not then no. Comment: maybe multiple circles or branches with many things. Comment: we should integrate bookend language so this tool remains a useful screening tool, be careful not to encompass what EPA, CalFIRE, and others do.



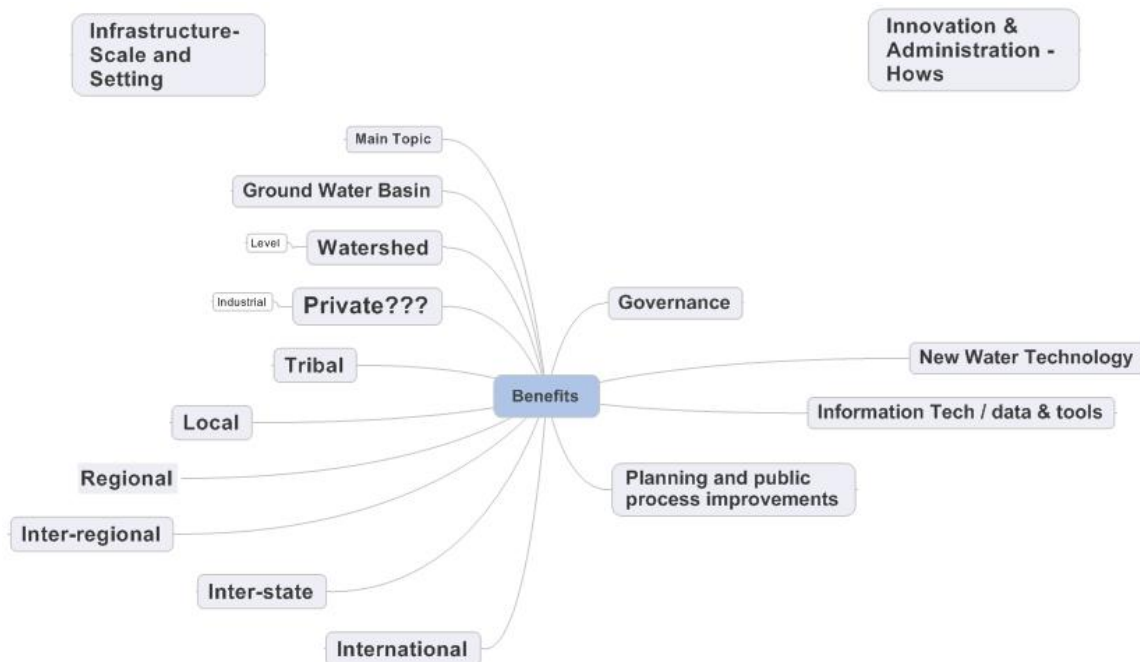
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Priorities and Activities

Ms. Beutler introduced the second exercise and stated the goals: 1. Start to specify the types of activities to be done, 2. Start to identify available tools, and 3. Start to identify tools in need of development. It was noted that the group will only make it part of the way through this activity in the time allotted. Two overarching questions were posed:

1. Are there other buckets we need to consider in terms of categorizing activities?
2. Are there other tools or strategies?



Comment: Local and Regional is about the scale of a project, not a funder or sponsor. Response: Infrastructure is on the left and should have a cloud behind those.

Question: International? Response: Mexico maybe. Comment: may not be a priority, but near-coastal might be a conversation, etc.

Question: where do regulations go? Response: they go on both sides, scale and tool.

Comment: vegetation management and meta-restoration, timber harvesting, etc, the piece of the investment would be the piece associated with water. Question: forest groups and others take actions that change the landscape and have effects on water, how to integrate those things?

Question: Lots of public and private partnerships influence integrated water management, should this be a separate range or scope? Should we add private actors or private investment?

Response: for any action it should or might include public and private investment; these buckets are not exclusive, they are scale, so private can engage in many different scales: local, regional, etc. Comment: sometimes private actors like PG&E or landowners. Ms. Beutler provided



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clarification as follows: the left is where things happen and right is what is happening; actors were not originally included; should they be included? Comment: the definitions are what is missing...we need to define them.

Comment: public and private collaboration at coca-cola and boeing level is important to include.

Question: should we add Watershed and Groundwater Basin as scales? Response: Yes.

Comment: call the left "scale and setting" to help make it more accessible.

Ms. Beutler reminded participants the purpose is to start setting the scope, and asked: are there other activity categories that should be included?

- An example was provided: quaga-mussel control, and the group determined that activity would have water supply and reliability and other benefits, and would be done at multiple scales; it was determined this activity category falls within the scope of IWM.
- Another example was provided: deep-space exploration. Question: what would the benefit be? Comment: environmental benefits for species diversity. The scale would be universal, etc. This project would likely have multiple benefits, and a lot of costs, only the piece that derives the specific IWM benefits would be included. Comment: NASA can be used to collect data and in new/innovative ways at a good price.

Question: how does the work of the Strategic Growth Council fit? Response: Governance.

Comment: integrated resource management is awkward, but there is very little that is under integrated resource management that is not closely related to water. Many things may be only slightly removed from IWM, and some things need to be put into the basket for integrated natural resource management, which may be applicable.

Ms. Beutler thanked participants for taking the time to explore this tool and explained that the staff will be flushing it out further. This tool will help the Water Plan draw clear boundaries about what is in and what is out. Question: where does regulation fit and where does total resource or integrated resource management fit in? Regulations are used to incentivize activities so they go to how we collect data, record data, etc. Regulations can go into many buckets. Does it sound ok that institutional tools show up under the combined institutional tools, right side of the list? Comment: regulation is a tool that shows up as a lever; using this process helps the Water Plan differentiate between very powerful and fairly weak tools and strategies.

Quantifying Public Benefits

Ajay Goyal, from the Statewide Infrastructure Investigations Branch is assisting the California Water Commission with identifying tools and metrics for calculating public benefits. \$3.4 billion is available to cover public benefit portion of storage projects that will be funded. Four types of projects are eligible:

- Surface storage projects identified in the CALFED Bay-Delta Program ROD
- Groundwater storage projects and GW contamination prevention or remediation projects that provide water storage benefits
- Conjunctive use and reservoir re-op. projects
- Local and regional surface storage projects that improve the operation of water systems in the state and provide public benefits



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The project staff are operating on the working assumption that the commission should be looking at the project based on a state benefit perspective and at a benefit added perspective based on “with versus without project circumstances.”

Question: the purpose of the team is to create a model to be used in regulation. How would the model treat a project? Response: timing and baseline are difficult to determine and very controversial, but that is not the topic right now. The regulation does not clearly define what a public benefit is so the team is intending to provide the commission some criteria to evaluate types of things that should count when quantifying public benefits. The team will not provide a list of things that should be counted because it is not for the team to decide, which is why the team is developing a list of criteria. There are multiple approaches to scientifically determining the values, and the team will follow best-practices that are provided in the Federal “Principles and Guidelines” for water resources development; these must be followed for federal participation. The current status is that an internal draft that defines acceptable and unacceptable methods and guidelines for when certain methods are appropriate and when others are not appropriate has been developed. A parallel process is occurring that is not part of the benefits calculation, but the agencies are working to develop their priorities for existing values. We are using our work to set the stage for which things will be in the regulation and which will be in the guidelines.

Comment: guidelines normally have a publicly developed requirement to be considered.

Response: the team would like to know how members think guidelines should be developed, do the members have advice or ideas about best practices?

Question: did the statute stipulate a 50/50 split or was it silent? Response: up to 50% of the total cost can be paid by the funding, and there remains a need to figure out how to quantify the non-public benefits. The Eco-system also must be at least 50% of the public benefits and the alternative funding sources must be contracted before anyone goes to the commission for funding.

Question: what are the CDQ guidelines? Response: They are being revised; they have the principles document out and they are developing the rest, but the principles are not detailed enough to tell what the rest will look like? Question: Will you examine the comments because they may be very informative to your effort, very specific comments have been provided.

Comment: the comments go beyond benefit cost analysis: regional economic development and other topics are covered.

Question: will you have an independent review of your report before you submit it to the Water Plan? Response: we are requesting review from academic panels, but we don’t have it in our timeline right now? Comment: Independent reviews are becoming customary. Follow-up comment: I concur, the team should actively seek an independent review before submission.

Public Comment and Adjourn

No public comments were registered. Mr. Massera thanked members for their time and said the core team would synthesize the work, repackage it and bring things back for the next meeting. Ms. Beutler reminded members that a plenary is scheduled for October 26-27; all members of this committee are welcome at the plenary.



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Attendance (43):

Finance Caucus Members (20):

David Boland, Association of California Water Agencies
Marji Feliz, Legislative Analyst's Office
Jack Hawks, California Water Association
Maria Kennedy, Kennedy Communication
Nick Konovaloff, Regional Council of Rural Counties
Kathy Mannion, Regional Council of Rural Counties
Danny Merkley, California Farm Bureau Federation
Jeff Michael, University of the Pacific
James Nachbaur, Legislative Analyst's Office
Saquib Najmus, RMC-WRIME
Valerie Nera, California Chamber of Commerce
Tim Parker, Parker Groundwater
John Ricker, County of Santa Cruz
Tito Sasaki, Sasaki Vineyards and California Farm Bureau Federation
Yung-Shin Sun, MWH
Jennifer Svec, California Association of Realtors
Susan Tatayan, The Nature Conservancy
Cynthia Truelove, California Public Utilities Commission
Jeffrey Volberg, San Diego County Water Authority
Jennifer West, California Municipal Utilities Association

DWR (10):

Kamyar Guivetchi, Chief, Division of Statewide Integrated Water Management (DSIWM)
Paul Massera, DSIWM, Update 2013 Program Manager
Lewis Moeller, DSIWM, Update 2013 Project Manager
Emily Alejandrino, DWR, Update 2013 Tribal Coordinator
Tracie Billington, IRMW Financial Assistance
Megan Fidell, DSIWM, Lead – Resource Management Strategies Coordination
Ajay Goyal, DWR, Statewide Infrastructure Investigations Branch
Scott Jercich, Program Manager, Contract Extension Project
Elizabeth Patterson, DWR
Terri Wegener, Statewide Flood Management

All Others (13):

Erika Barraza, Carollo
Keith Coolidge, Delta Stewardship Council
Nate Dechoretz, California Department of Food and Agriculture
Shahla Farahnak, State Water Board
Tom Glover, Westland Water District
Bruce Gwynne, California Department of Conservation
Steve Hatchett, CH2MHill
Angela Karst, Tsi-Akim Maidu



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Stathis Kostopoulos, Metropolitan Water District

Roger Mann, Consultant

Glenda Marsh, California Department of Fish and Game

Jonas Minton, Planning and Conservation League

Doug Wallace, East Bay Municipal Utilities District

Facilitation Team: Lisa Beutler, MWH; Crystal Fair Welty and Judie Talbot, Center for Collaborative Policy,
Sacramento State